

AR48



FARMERS & MERCHANTS TRUST

ANNUAL REPORT 1974

Head Office

209 - 8 Avenue South West
Calgary, Alberta

Alberta

Calgary — 209 - 8 Avenue South West
Edmonton — 10225 Jasper Avenue
Grande Prairie — 9933 Richmond Avenue
Lethbridge — 309 - 7 Street South
Medicine Hat — 429 - 3 Street South East
Red Deer — 4822 Gaetz Avenue

British Columbia

Vancouver — 564 Howe Street
Victoria — 731 Fort Street
Kamloops — 157 Victoria Street

Manitoba

Winnipeg — 349 Portage Avenue

Ontario

Toronto — 15 Toronto Street

Quebec

Montreal — 1450 St. Catherine Street West



Directors

Thaddeus L. Charne, Q.C.

President, Commerce Capital Properties Limited

Daniel P. Hays

Partner, Macleod, Dixon, Barristers

Richey B. Love, Q.C.

Partner, Macleod, Dixon, Barristers

Donald A. Ross, C.A.

President, Farmers & Merchants Trust Co. Ltd.

Charles Orenstein

President, Consolidated Hotel Management Ltd.

Jack B. Whitely

President, Commerce Capital Corporation Limited

Officers

Jack B. Whitely, Chairman of the Board

Donald A. Ross, President

Richey B. Love, Vice-President

Orest J. Dizop, Vice-President, Mortgages

Larry R. Lunn, Vice-President, Investments

Anthony G. Ducie, Treasurer

Patricia A. Rempel, Secretary

Corporate Data

HEAD OFFICE

209 - 8 Avenue South West, Calgary, Alberta

AUDITORS

Thorne, Riddell & Co., Chartered Accountants
Calgary, Alberta

STOCK EXCHANGES

Toronto Stock Exchange
Montreal Stock Exchange
Alberta Stock Exchange

TRANSFER AGENTS AND REGISTRAR

Farmers & Merchants Trust Co. Ltd.,
Calgary, Toronto, Montreal



Executive Management

Donald A. Ross, C.A., President
Orest J. Dizop, Vice-President, Mortgages
Larry R. Lunn, Vice-President, Investments
Anthony G. Ducie, Treasurer
Patricia A. Rempel, Secretary

Theo A. Koster, Computer Services
Donald T. McIntosh, Mortgage Administrator
Valerie J. Paulson, Portfolio Administrator
C. Robert Sharp, Corporate Services
William E. Tanner, Real Property Development

Investment Committee

Donald A. Ross
Richey B. Love
Daniel P. Hays
Larry R. Lunn
Valerie J. Paulson

Mortgage Committee

Donald A. Ross
Richey B. Love
Daniel P. Hays
Orest J. Dizop
Donald T. McIntosh

Branch Management

ALBERTA
L. L. Davidson, Lethbridge
W. C. Drummond, Grande Prairie
B. Hansum, Calgary
W. Miller, Edmonton
B. G. Stone, Medicine Hat
J. R. Unsworth, Red Deer

BRITISH COLUMBIA
L. E. Burton, Victoria
A. L. Flemmer, Vancouver
E. L. Grenke, Kamloops

MANITOBA
E. J. Timmermann, Winnipeg

ONTARIO
P. Hurtubise, Toronto

QUEBEC
F. D. Saragea, Montreal



President's Report to the Shareholders

During 1974 your Company enjoyed record growth in assets, customer deposits and earnings.

Customer deposits increased by slightly over 50% and our customer family continued to expand at a very satisfactory rate.

Earnings before extraordinary items increased by 36%, a rate of growth which we regard as most satisfactory in a year of extremely difficult monetary conditions.

Your directors have increased the dividends on common shares from Four cents quarterly in 1973 to Five cents quarterly in 1974, and will continue to review dividend policy in context with earnings and the Company's requirements to increase capital for continued expansion.

The board of directors and management are currently reviewing alternatives for the increase of Farmers & Merchants' capital base. This matter has a high priority as additional capital is required to allow the Company to avail itself of a number of attractive opportunities for further expansion.

In 1974 65,000 shares of the Company's stock were issued to employees under the terms of the Company's Stock Purchase Plan. This brings the total number of shares outstanding to 1,361,478.

Farmers & Merchants will open a centrally-located branch in Winnipeg in March 1975. We believe that Winnipeg will offer an excellent market for our services. The Calgary suburban

branch opened in 1973 was closed in 1974, as operating results failed to meet budget expectations.

Commerce Capital Properties completed its wholly-owned centres in Kenora, Ontario and Estevan, Saskatchewan in the latter part of 1974. The company has a participating interest in centres under construction in Winnipeg, Manitoba and Olds, Alberta; and is considering development of or participation in a number of attractive sites in 1975 and future years.

There is every indication that 1975 will be a year in which we will be faced with continuing price inflation and some measure of recession in the economy. While these conditions will slow your Company's growth, I anticipate that Farmers & Merchants will be able to further improve its earnings in the coming year.

The success of a business enterprise such as Farmers & Merchants Trust is directly attributable to its employees. Your Company is particularly fortunate in having a loyal, hard-working employee family, to whom I wish to express on behalf of the shareholders and the board sincere appreciation for a successful 1974.

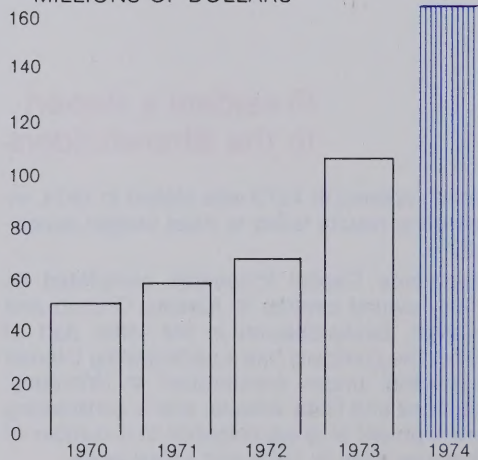
Respectfully submitted,

Donald A. Ross, C.A.
President.

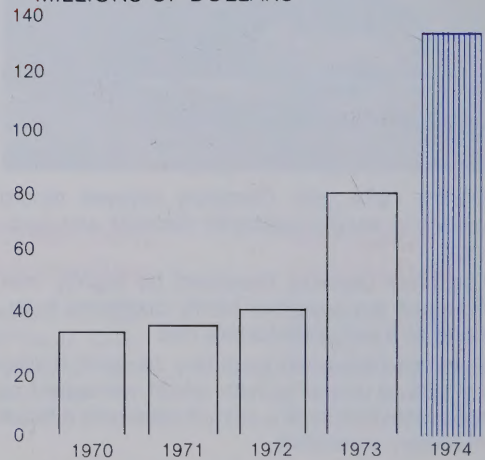


FIVE YEAR FINANCIAL HIGHLIGHTS

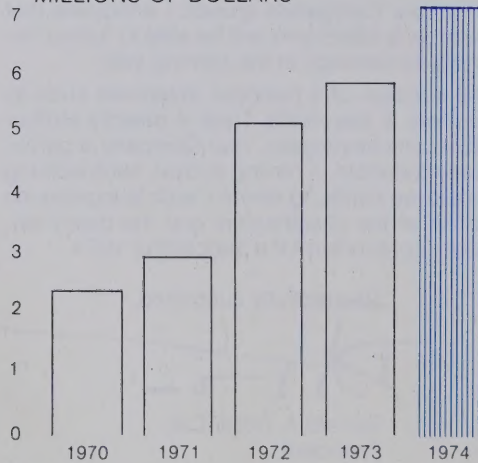
DEPOSITS
MILLIONS OF DOLLARS



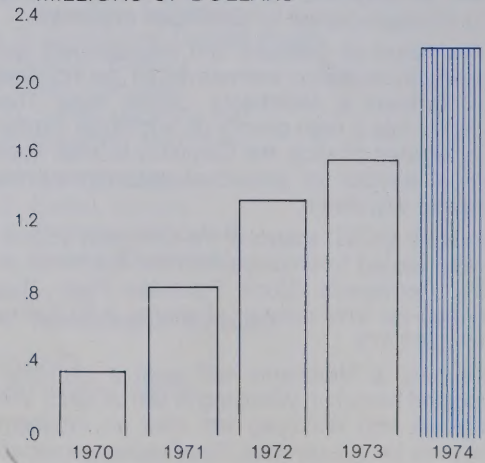
MORTGAGES
MILLIONS OF DOLLARS



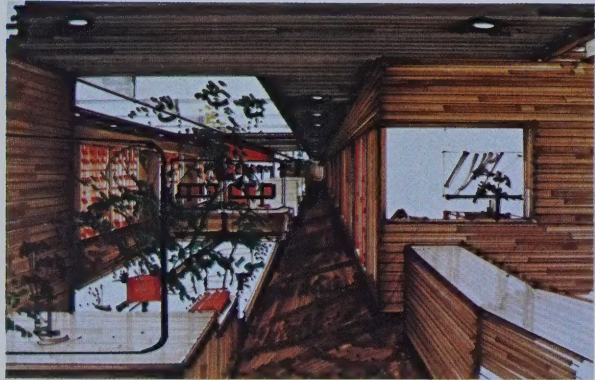
SHAREHOLDERS' EQUITY
MILLIONS OF DOLLARS



EARNINGS BEFORE TAX
MILLIONS OF DOLLARS



349 Portage Avenue, at the centre of
Winnipeg's financial district.
Opening February 27, 1975.



Kenora, Ontario Shoppers Mall.
Major tenants Woolworth and
Dominion Food Stores. Opened
in July 1974 by Commerce Capital
Properties Limited.

McMillan House, one of
several condominium projects in
Vancouver area financed by
Farmers & Merchants Trust.





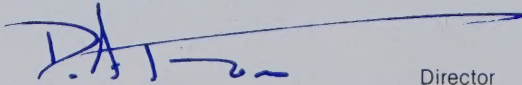
FARMERS & MERCHANTS TRUST CO. LTD. and Subsidiary Companies

CONSOLIDATED
CAPITAL AND GUARANTEES
AS AT DECEMBER 31, 1974

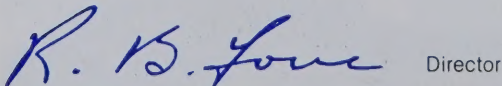
ASSETS

	1974	1973
CASH AND BANK DEPOSIT RECEIPTS	\$ 5,699,556	\$ 1,528,252
INVESTMENT IN MARKETABLE SECURITIES, (Note 3)		
Government bonds	13,908,476	20,582,355
Corporate bonds	11,102,825	5,427,728
Stocks	2,240,455	2,615,001
	27,251,756	28,625,084
MORTGAGES, AGREEMENTS AND SECURED LOANS	133,322,087	80,595,108
ACCOUNTS RECEIVABLE AND PREPAID EXPENSES	2,704,156	926,779
PROPERTIES (Notes 4 and 12)	9,673,523	4,129,673
LAND, BUILDINGS AND LEASEHOLD IMPROVEMENTS (Note 5)	1,516,761	1,024,599

Signed on behalf of the Board:



Director



Director

\$180,167,839 \$116,829,495

**BALANCE SHEET
ED TRUST ACCOUNTS
ER 31, 1974**

LIABILITIES

	<u>1974</u>	<u>1973</u>
DEPOSITS (Note 2)		
Savings deposits.....	\$ 37,916,033	\$ 13,019,934
Guaranteed investment certificates	122,718,858	92,740,123
	<u>160,634,891</u>	<u>105,760,057</u>
BANK INDEBTEDNESS	<u>225,000</u>	<u>1,189,785</u>
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES		
Brokers	918,108	390,324
Trade and other.....	524,573	855,650
INCOME TAXES PAYABLE	—	510,007
MORTGAGES AND AGREEMENTS (Note 6).....	7,420,682	280,735
DEFERRED INCOME (Note 7)	2,702,125	1,546,215
DEFERRED INCOME TAXES (Note 8)	597,964	258,718
MINORITY INTEREST IN SUBSIDIARY COMPANY	<u>98,312</u>	<u>101,000</u>
	<u>12,261,764</u>	<u>3,942,649</u>

SHAREHOLDERS' EQUITY

CAPITAL STOCK (Note 9)

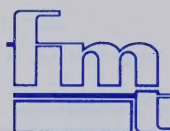
Authorized

1,000,000 preferred shares at the par value of \$10 each

2,000,000 common shares at the par value of \$1 each

Issued

1,361,478 common shares (1973 - 1,296,478).....	1,361,478	1,296,478
CONTRIBUTED SURPLUS.....	2,090,593	1,928,093
GENERAL RESERVE.....	3,250,000	2,500,000
RETAINED EARNINGS.....	<u>344,113</u>	<u>212,433</u>
	<u>7,046,184</u>	<u>5,937,004</u>
	<u>\$180,167,839</u>	<u>\$116,829,495</u>



CONSOLIDATED STATEMENT OF EARNINGS

For the year ended December 31, 1974

	1974	1973
GROSS REVENUE.....	\$17,672,899	\$9,898,531
EXPENSES		
Interest on deposits and borrowings	11,771,385	6,167,667
Personnel	1,667,759	1,156,492
Premises	345,047	337,860
Mortgage provision.....	100,000	50,000
Other	1,614,074	655,164
	15,498,265	8,367,183
Earnings before income taxes and extraordinary item.....	2,174,634	1,531,348
INCOME TAXES (Note 8)		
Current	758,056	557,102
Deferred	339,245	162,691
	1,097,301	719,793
Earnings before extraordinary item.....	1,077,333	811,555
EXTRAORDINARY ITEM		
Recovery of income taxes (Note 8)	66,893	87,567
NET EARNINGS.....	\$ 1,144,226	\$ 899,122
EARNINGS PER COMMON SHARE		
based on weighted average number of shares outstanding		
Before extraordinary item	\$0.83	\$0.63
Net earnings.....	\$0.88	\$0.69

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the year ended December 31, 1974

	1974	1973
RETAINED EARNINGS AT BEGINNING OF YEAR.....	\$ 212,433	\$ 270,747
Net earnings.....	1,144,226	899,122
	1,356,659	1,169,869
Transferred to general reserve.....	750,000	750,000
Dividends — common shares	262,546	207,436
	1,012,546	957,436
RETAINED EARNINGS AT END OF YEAR.....	\$ 344,113	\$ 212,433

CONSOLIDATED STATEMENT OF GENERAL RESERVE

For the year ended December 31, 1974

	1974	1973
GENERAL RESERVE AT BEGINNING OF YEAR.....	\$2,500,000	\$1,750,000
Transfer from retained earnings	750,000	750,000
GENERAL RESERVE AT END OF YEAR.....	\$3,250,000	\$2,500,000

CONSOLIDATED STATEMENT OF CONTRIBUTED SURPLUS

For the year ended December 31, 1974

	1974	1973
CONTRIBUTED SURPLUS AT BEGINNING OF YEAR.....	\$1,928,093	\$1,928,093
Premium on issue of common shares	162,500	—
CONTRIBUTED SURPLUS AT END OF YEAR.....	\$2,090,593	\$1,928,093


CERTIFICATE

(Under the Trust Companies Act, 1967, Section 91 (3))

We certify that the financial statements of Farmers & Merchants Trust Co. Ltd. and subsidiary companies are to the best of our knowledge and belief correct and show truly and clearly the financial condition of the companies' affairs.



D. A. ROSS
President



A. G. DUCIE
Treasurer



AUDITORS' REPORT

To the Shareholders

Farmers & Merchants Trust Co. Ltd.

We have examined the consolidated balance sheet of Farmers & Merchants Trust Co. Ltd. and subsidiary companies as at December 31, 1974 and the consolidated statements of earnings, retained earnings, general reserve and contributed surplus for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances, including verification of cash, bank balances and securities of the companies. All our requirements as auditors have been complied with.

After due consideration we have formed an independent opinion of the position of the companies as at December 31, 1974 and we report that in our opinion and according to the best of our information and the explanations given to us these consolidated financial statements present fairly the financial position of the companies as at December 31, 1974 and the results of their operations for the year then ended in accordance with generally accepted accounting principles which, except for the change in the method of amortizing deferred income as referred to in note 7 to the financial statements, have been applied on a basis consistent with that of the preceding year.

We report that the financial statements are in agreement with the books of the companies and that all transactions of the company that have come within our notice have in our opinion been within the powers of the company.

Calgary, Alberta
February 3, 1975

THORNE RIDDELL & CO.
Chartered Accountants

NOTES TO 1974 CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — ACCOUNTING POLICIES

The consolidated financial statements include the company and the wholly-owned subsidiaries Fort Calgary Properties Ltd. (formerly Town & Country Apts. Ltd.), Greenwood Properties (1970) Ltd., Famtco Holdings Ltd. and its wholly-owned subsidiary D & B Noteholders Properties Ltd., and Commerce Capital Properties Limited in which the company holds a 90% interest.

NOTE 2 — GUARANTEED ACCOUNT

Deposits include \$160,634,891 and \$105,760,057 at December 31, 1974 and 1973 respectively held for Guaranteed Account. Assets to secure these deposits are as follows:

	1974	1973
Cash and bank deposit receipts.....	\$ 3,610,897	\$ 744,250
Mortgages and secured loans.....	133,258,900	78,794,391
Securities	23,765,094	26,221,416
	<u>\$160,634,891</u>	<u>\$105,760,057</u>

NOTE 3 — MARKETABLE SECURITIES

Bonds are recorded in the accounts at amortized cost.

Stocks are recorded in the accounts at cost, less amounts written off.

Statutory values, as determined in accordance with the provisions of the Alberta Trust Companies Act, and market values at December 31, 1974 are:

	1974		1973	
	Market Value	Statutory Value	Market Value	Statutory Value
Government Bonds.....	\$11,825,742	\$13,908,476	\$19,004,610	\$20,582,355
Corporate Bonds.....	10,201,652	11,080,889	5,247,365	5,459,527
Stocks.....	1,835,558	1,835,558	2,317,652	2,317,652
	<u>\$23,862,952</u>	<u>\$26,824,923</u>	<u>\$26,569,627</u>	<u>\$28,359,534</u>

No provision has been made for the decline in the market value of marketable securities below recorded value because in the opinion of management, such decline does not represent a permanent diminution in value.

NOTE 4 — PROPERTIES

	1974	1973
Developed properties.....	\$7,367,578	\$ —
Accumulated depreciation.....	30,000	—
	<u>7,337,578</u>	<u>—</u>
Properties under development.....	2,284,715	2,759,579
Rental properties.....	—	947,770
Properties held for sale.....	51,230	422,324
	<u>\$9,673,523</u>	<u>\$4,129,673</u>

Developed properties and properties under development pertain to the operations of a subsidiary real estate development company. All costs and expenses, including interest, property taxes and general administration expenses, net of revenue, which are directly related to development activities are capitalized until a substantial rental occupancy is achieved. Thereafter, all such costs, exclusive of land costs, are amortized to earnings over the life of the properties.

Properties held for sale are recorded at the lower of cost or appraised value. Cost is the mortgage balance receivable at the time of foreclosure plus related expenses of foreclosure and maintenance less revenues generated by the property.

NOTE 5 — LAND, BUILDINGS AND LEASEHOLD IMPROVEMENTS

Land, buildings and leasehold improvements are stated at cost less accumulated depreciation and amortization of \$320,731 and \$242,584 at December 31, 1974 and 1973 respectively. Depreciation and amortization charged to earnings amounted to \$78,147 and \$50,539 for the years ended December 31, 1974 and 1973 respectively.

NOTE 6 — MORTGAGES AND AGREEMENTS

Mortgages and agreements payable by subsidiary companies are:

	1974	1973
10¼% Mortgage due 1994, repayable by monthly instalments of \$32,133 including interest.....	\$3,650,000	\$ —
9¾% Mortgage due 1994, repayable by monthly instalments of \$24,929 including interest.....	2,950,000	—
Other mortgages and agreements, due on various dates at interest rates ranging from 6% to 12%.....	820,682	280,735
	<u>\$7,420,682</u>	<u>\$280,735</u>



The mortgages and agreements are secured by developed properties, properties under development (see Note 4) and certain land and buildings.

Mortgage and agreement repayments for each of the five years subsequent to 1974 are as follows: 1975 - \$180,830; 1976 - \$264,980; 1977 - \$187,340; 1978 - \$114,680; and 1979 - \$67,980.

NOTE 7 — DEFERRED INCOME

The company issues mortgages at a discount. Such discounts are deferred and taken into income over the term of the mortgage. Effective January 1, 1974 the company changed its accounting policy for amortizing new mortgage discounts from the sum of the years' digits method to the straight-line method. Unamortized discounts at January 1, 1974 are amortized on the straight-line method over the remaining term. As a result of this change in accounting policy, discounts earned in 1974 were \$213,500 less than would have been earned under the sum of digits method.

NOTE 8 — INCOME TAXES

Income taxes shown on the consolidated statement of earnings include amounts otherwise payable but assessed in prior years. Such amounts are recorded as extraordinary credits in the consolidated statement of earnings. This policy was developed because of management's reluctance, based on the Company's prior years' financial results, to record as an asset the future benefits to be obtained through the declaration, for tax purposes, of certain income prior to its inclusion in the statement of earnings. In 1974 the remaining amounts, which had been assessed in prior years, were taken into earnings.

NOTE 9 — CAPITAL STOCK

In 1974, 65,000 common shares were reserved for issuance under the Stock Purchase Plan approved by the directors in August 1974, all of which shares were issued to officers and employees for \$227,500 cash. The par value of the shares, \$65,000, was credited to common share capital and \$162,500 was credited to contributed surplus. The company advanced \$110,250 to the Trustees of the Plan to enable employees to acquire 31,500 common shares.

The company increased its authorized capital by the creation of 1,000,000 preferred shares of the par value of \$10.00 each, approved by Order in Council of the Province of Alberta on July 2, 1974.

NOTE 10 — LONG-TERM LEASE

The aggregate minimum rentals payable under leases, exclusive of property taxes, insurance and other occupancy and maintenance charges for the five year period ended December 31, 1979 are approximately \$390,415. Rents paid during 1974 aggregated approximately \$212,678.

NOTE 11 — REMUNERATION

The aggregate direct remuneration paid by the companies in 1974 to the directors and senior officers amounted to \$322,098.

NOTE 12 — COMMITMENTS AND CONTINGENCIES

A subsidiary of the company has a 10% interest in a real estate joint venture under which the subsidiary has a commitment to spend approximately \$1,850,000. As at December 31, 1974 the subsidiary is contingently liable for \$255,000 as one of the guarantors of the bank indebtedness of the joint venture. The joint venture has arranged a seven year bank loan to cover the estimated expenditures, as a result of which the subsidiary's guarantee will increase to \$1,850,000.

Savings Plans

Chequing accounts
interest bearing; free chequing privileges
Savings accounts
highest current interest rates
Guaranteed Investment Certificates
term deposits
Deposit-by-mail services

Financial Planning Services

Registered Retirement Savings Plans
Plan "A" — self-administered
Plan "B" — fixed income; no administration charges
Registered Homeowner Savings Plan
Deferred Profit-sharing Plans
Income Averaging Annuity Contracts

Mortgages and Real Properties

Conventional loans
C.M.H.C. loans
M.I.C.C. loans
Correspondent and servicing agent
Mortgage banking
Real estate brokers
Appraisal services
Property management
Real property development

Trust Services

Estate planning
Administration of estates
Portfolio management
Trustee for pension plans
Stock transfer agent and registrar
Corporate trust services
Agency accounts

MEMBER CANADA DEPOSIT INSURANCE CORPORATION
MEMBER QUEBEC DEPOSIT INSURANCE BOARD

